FISCAL NOTE

Bill #: **HB0668**

Title: Specify methods of assessing class 9 and class 12 properties

Primary Sponsor: **Chase Hibbard**

Status: As introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditures:		
General Fund	$42,519	$142,928
Revenue:		
General Fund	($164,835)	($1,243,018)
State Special Revenue	(17,047)	(128,553)
Net Impact on General Fund Balance:	**($207,354)**	**($1,385,946)**

Yes	No		Yes	No	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

1. Additional staff and resources will be required to value the real and personal property of telecommunications companies. The proposal requires telecommunications land to be valued at cost, income and market valuation methods, separately from the companies' personal property. A partial 0.32 FTE with personal service expenses of $9,665 in FY2000 and $9,592 in FY2001 will be necessary to appraise the land at the local level. Operating costs of $8,093 in FY2000 and $4,248 in FY2001 are anticipated for one-time start-up costs and on-going costs associated with new personnel.
2. Telecommunications companies include telephone cooperatives.
3. Telecommunications personal property will be appraised at "replacement cost new less depreciation" (RCNLD). This appraisal methodology will be phased-in over FY2000 through FY2002. Based on

replacement cost studies conducted by large multistate telecommunications companies previously provided to the department, it is estimated the RCNLD value of Montana telecommunications property will be approximately 70% of its current market value.

4. The change in appraisal methodology for telecommunications companies is anticipated to result in taxable value loss of $1,747,259 in FY2000 and $11,442,216 in FY2001. This loss in taxable value results in a loss in property tax revenue of $730,290 in FY2000 and $4,782,424 in FY2001.
5. An average two percent growth is anticipated for centrally assessed companies included in this proposal.
6. Railroads, electric and gas utilities and oil and gas pipelines will be appraised using a formula that includes three change factors. The formula will reflect in all components of its three change factors the annual average two percent growth anticipated for centrally assessed companies.
7. The gross profit margin change factor will recognize the two percent growth in both earnings and operating revenue components rendering a change factor of 1.0 or "no change" in the gross profit margin.
8. The anticipated loss in taxable value for railroad companies due to the implementation of the proposed appraisal formula is $293,741 in FY2000 and $597,762 in FY2001. The anticipated loss in tax revenue from railroad companies is $107,225 in FY2000 and $218,202 in FY2001.
9. The anticipated loss in taxable value for pipeline companies due to the implementation of the proposed appraisal formula is $393,965 in FY2000 and $801,719 in FY2001. The anticipated loss in tax revenue from pipeline companies is $130,682 in FY2000 and $265,937 in FY2001.
10. The anticipated loss in taxable value for electric and gas utility companies due to the implementation of the proposed appraisal formula is $344,259 in FY2000 and $701,945 in FY2001. The anticipated loss in tax revenue from electric and gas utility companies is $95,749 in FY2000 and $195,232 in FY2001.
11. Airlines will be assessed at original cost less depreciation (OCLD). Because the assessed values of airline companies in Montana currently are (on average) below their cost indicator (OCLD), the airline companies will realize a taxable value and tax revenue increase due to this proposal. The taxable value increase for airline companies is anticipated to be $951,072 in FY2000 and $970,093 in FY2001. The tax revenue increase from airline companies is anticipated to be $392,793 in FY2000 and $400,648 in FY2001.
12. The estimated loss in property tax revenue due to this proposal for the 95 mill levy is $163,493 for FY2000 and $1,232,895 for FY2001.
13. The estimated loss in property tax revenue for the 1.5 vo-tech mill levy is $1,342 for FY2000 and $10,122 for FY2001.
14. The estimated loss in property tax revenue for the 9 mill state assumption of welfare levy is $6,712 in FY2000 and $50,611 in FY2001.
15. The estimated loss in property tax revenue due to this proposal for the 6 mill university levy is $10,336 in FY2000 and $77,942 in FY2001.
16. The estimated loss in property tax revenue due to this proposal on local governments is $489,271in FY2000 and $3,689,576 in FY2001.
17. The reduction in taxable values will cause school districts to increase GTB levies in FY2000 and FY2001 to maintain minimum budgets required under section 20-9-308(1)(a), MCA. The higher levies will increase the amount of state GTB aid by $22,761 in FY2000 and $129,088 in FY2001. In subsequent years the statewide GTB will be adjusted resulting in changes in state GTB aid.

FISCAL IMPACT:	FY2000 Difference	FY2001 Difference
FTE	0.32	0.32
Expenditures:		
Personal Services	$9,665	$9,592
Operating Expenses	8,093	4,248
Equipment	2,000	0
School GTB	22,761	129,088
TOTAL	$42,519	$142,928
Funding:		
General Fund (01)	42,519	142,928
Revenues:		
General Fund (01)	(164,835)	(1,243,018)
State Special Revenue (02)	(17,047)	(128,553)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	(207,354)	(1,385,946)
State Special Revenue (02)	(17,047)	(128,553)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
It is estimated that the proposal will result in a reduction in property tax revenue for local governments and schools of $489,271 in FY2000 and $3,689,576 in FY2001.

LONG-RANGE IMPACTS:
It is estimated that the proposal will result in an on-going reduction in property tax revenue. The table below illustrates the allocation of tax revenue loss for FY2002 through FY2005:

	2002	2003	2004	2005
95 mills	(1,460,077)	(3,129,971)	(3,279,229)	(3,432,872)
1.5 mills	(11,987)	(25,698)	(26,923)	(28,184)
6 mills	(92,304)	(197,872)	(207,308)	(217,021)
9 mills	(59,937)	(128,488)	(134,615)	(140,922)
Local Gov & Schools	(4,369,443)	(9,366,786)	(9,813,455)	(10,273,250)
Total	(5,993,750)	(12,848,815)	(13,461,530)	(14,092,249)

TECHNICAL NOTES:
1. Market value definitions would need to be changed to include these formula methodologies as market value methodologies. Currently the market value definition has no exception that would allow this type of formula to qualify as an approach to market value.

2. Section 2 (1) includes potentially conflicting statements. The first statement indicates that railroad property new to the state shall be appraised using accepted unit value methods. The next statement indicates that if ownership of an existing railroad changes hands, the base value transfers with ownership. In the case of a merger, the acquiring company could have both new property to the state and property that the acquiring company is in the process of purchasing in Montana which is existing railroad property. Clarification is needed regarding how use two different appraisal methods for the same company.
3. Section 2 (3) requires six years of data for assessment purposes. Clarification should be offered regarding how to treat the circumstance where the required data does not exist.
4. Section 2 (6) defines gross profit margin with the term operating revenues. Operating revenues should be defined as well.
5. Section 5 (2) sets the 1998 value of land as a floor value for valuing land in future years. There are two problems with this (1) the land was not appraised separately in 1998 and (2) frequently, the companies did not report the land separately from the buildings on their situs reports.
6. Because of the effective date (December 31, 1998), amendments may be necessary to allow adequate time for (1) companies to meet their reporting requirements, (2) the department to calculate the assessed value and (3) companies to exercise their appeal rights.
7. An extension of time would also be necessary to allow the department to locally assess the land and improvements of the telecommunications companies.
8. Section 9 (2) does not address a salvage value percentage for aircraft that are still in production and manufactured before the effective date of this bill.
9. The definition of “base value” will require the department to accept previous year values as the starting point for all future years. Current year values include property appraisals determined by settlement rather than by appraisal methods. In general, the department has opposed the concept of using a settlement value as a basis for future assessment values.